# APPENDIX

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**FOMC CHART SHOW -- DOMESTIC ASPECTS**

The first chart in the package lays out the basic assumptions underlying the staff's forecast. We felt that the FOMC's approach to policy argued against basing our projection strictly on a monetary target. Rather, we worked from what we took to be the fundamental objectives behind the Committee's actions for some time now. First, we assumed that policy would be aimed at accommodating such growth as would be possible without creating pressures that would produce a substantial pickup in inflation. Second, we assumed that weakness in the dollar would not elicit a major policy response unless it appeared likely to jeopardize seriously the attainment of noninflationary growth.

These underlying assumptions led to the listed financial specifications: (1) that interest rates, perhaps after easing a bit further over the next several months, would turn upward--reaching levels roughly 3/4 of a percentage point above those prevailing now; (2) that, with these rate movements inducing changes in velocity, M2 and M3 would grow somewhere around 6 to 6-1/2 percent this year and closer to 5 percent in 1989; and (3) that the dollar would come under downward pressure from time to time and depreciate moderately on average over the period.

For fiscal policy, we have assumed that there are no new deficit-reduction initiatives, but that the necessary steps are taken to implement the December budget agreement.

As you can see on chart 2, neither the staff nor the CBO projects that the deficit-reduction package will result in attainment of the revised Gramm-Rudman targets. Fiscal year 1988 is legislative history, though, and our projected 1989 deficit would just meet the legal requirement, given the $10 billion leeway allowance. The Administration has yet to publish its projections, but it is expected to produce numbers satisfying the Gramm-Rudman constraints. However, one clearly cannot dismiss the possibility that, later this year, another painful round will be needed on the 1989 budget.

In any event, we perceive fiscal policy already to be on a course of moderate restraint. The picture is somewhat muddled by the way transitory elements entered into last year's big reduction in the deficit. In the bottom panel, though, the change in the structural deficit between fiscal 1986 and fiscal 1989 provides a reasonable representation of the underlying thrust of policy.

Chart 3 summarizes briefly the staff and FOMC projections. As you know, we have forecast that real GNP growth will slow to a 1-1/2 percent annual rate in the first half of this year and then run about 2-3/4 percent over the next six quarters. GNP minus net exports--that is, domestic spending--is expected to fall short of domestic output growth by a significant margin, reflecting the continuing adjustment of our external position. The lower dollar is the key influence in that adjustment, but it also is a continuing force lifting the U.S. price level. As was the case last year, consumer prices are expected to rise faster than GNP prices, reflecting the more direct influence of imports.

The table at the bottom shows that the central tendency forecasts of the Committee encompass the Administration's outlook for real activity but are a touch more optimistic on inflation.

In putting together our projection for this meeting, we felt we were confronted with two key questions, one short-run, one longer-run. The short-run question is whether we have the makings of a significant weakening of activity arising primarily out of a slump in consumer spending and a run-up in inventories late last year. The longer-run question is just how rapidly the economy can grow without placing significant inflationary pressures on productive resources. Chart 4 addresses the first issue.

We have very little to go on in assessing the pace of expansion in the current quarter. The recent run-up in initial claims for unemployment insurance suggests a slowing in employment growth, and as the upper left panel shows, total nonfarm payrolls did rise much less in January, according to last Friday's report. Total hours of production and nonsupervisory workers in all industries rose only two-tenths percent; the January level also is only two-tenths above the fourth-quarter average, which suggests considerably reduced growth in output this quarter.

Of course, some analysts have asserted that last quarter's big inventory increase will push the economy into recession. Although such a development can't be ruled out, it is our assessment that the inventory overhang is not serious enough to lead to that outcome. The middle panels highlight the current situation in the auto industry. Sales of domestic cars have been fairly good since incentives were reintroduced in mid-November, but dealer stocks still are uncomfortably high. Consequently, the auto makers' production schedules--shown at the right--point to low assemblies in the first half. The sharp first-quarter drop in auto output appears large enough to knock about a percentage point off GNP growth.

There also was substantial inventory accumulation outside the auto sector last fall. Manufacturing inventories nonetheless appear lean on the whole; the black line in the lower left panel shows the factory stock-to-shipments ratio at a new cyclical low in December. The most notable increases in inventory-sales ratios have occurred at retail outlets selling apparel and home goods, and the anecdotal evidence suggests that some of this rise may have been desired, in light of the threat of import restraints and price increases.

Given the apparent dimensions of the problem, we don't think that overall production is likely to suffer a major blow--and orders placed with manufacturers through December don't provide any indication to the contrary. Thus, we have industrial output slowing noticeably in the first half--to around a 2 percent rate of growth--but not sliding into an actual decline. The inventory adjustment should be largely completed by mid-year, paving the way for an acceleration of activity thereafter.

Of course, this outlook supposes that final demand--especially from consumers--will not remain on the negative course of the fourth quarter. Chart 5 outlines the key factors in our projection of consumer spending. As the top panel shows, we are looking for real spending gains of between 1-1/2 and 2 percent throughout 1988 and 1989. This would hold the saving rate well above the lows reached last year.

Relatively weak growth of real disposable income is the primary factor restraining consumer spending in our projection. The middle panel shows how last year, in the face of stronger gains in nominal income, real income decelerated noticeably. This wider gap between nominal and real income is expected to persist--owing mainly, as I will note again later, to the effects of the dollar's depreciation on real wages.

In the near term, we also are allowing for some negative effect on spending from the stock market decline. The lower left panel indicates that household net worth took a sizable hit last fall. However, we have shaved a bit off of our estimate of the associated consumption effect, guessing that consumer confidence has not been severely damaged; the rebound in the sentiment index at the right is supportive of this view.

We also were concerned that the stock market plunge might take a toll of housing activity, and at this point we can't rule out that possibility. As indicated on chart 6, housing starts fell in December, most sharply in the case of multi-family units, which had spurted in

November, but noticeably as well for singles. Moreover, sales of both new and existing homes--at the right--tailed off.

While the stock market drop may have played a role, we are inclined to think that the December story for single-family houses is partly one of lagged response to the earlier rise in mortgage rates and partly statistical noise. Recent field reports suggest that the decline in mortgage rates since last fall has revived buyer interest and builder optimism. As the middle left panel indicates, the payment burden on new houses--especially when financed with adjustable-rate loans--is now relatively low. To be sure, this measure doesn't take account of the effect of the reduction in marginal tax rates on borrowing costs, and these curves would look much worse for the Northeast. Nonetheless, we expect a near-term bounceback in single-family starts to the 1.1 million vicinity.

On the multi-family side, astronomical vacancy rates for rental properties in many locales--and the much less attractive tax environment for investors--suggest that starts, though rebounding from the December dip, will remain low.

Actual construction probably will drop in the current quarter, given the downtrend in starts last year, but--as indicated in the bottom panel--we expect that the decline in activity will be reversed by year-end. Real residential structures outlays thus are a negligible factor in Q4-Q4 growth this year and a slight positive contributor in 1989.

Business fixed investment, in chart 7, looks to be a small net positive contributor to GNP growth in both 1988 and 1989. As the top panel shows, all of the projected gain is in the equipment category, with structures outlays about flat in real terms. Neither the pace of overall output growth nor the lagged effects of movements in the cost of capital argue for much increase in spending. However, we believe there will be areas of strength, resulting from the high rates of capacity utilization and improved profitability in a number of industries that are benefiting from enhanced international competitiveness. The middle panel points out some sectors in which capacity utilization has reached impressive levels.

As you know, there have been many stories about how unwilling firms are to undertake major investments, given uncertainties about the future of the dollar and overall demand. We don't dismiss that argument, but our impression is that effective capacity is being increased, often through equipment acquisitions aimed at "debottle-necking"--the current buzz word--or at other efficiency improvements.

There also is some construction of new plants in train and some old facilities are being reopened, so we expect to see a significant rise in outlays for industrial structures. We don't anticipate an increase in overall spending on nonresidential structures, however, despite the upturn last year in new contracts--shown at the lower left. The high vacancy rates for offices, shown at the right, argue against such a development, as does the negative outlook for oil drilling in the near term.

The prospects for construction activity don't appear especially strong in the state and local sector, either; such spending has provided substantial impetus over the past few years to state and local purchases--shown in the top panel of the next chart. The deterioration in the financial position of many governmental units suggests that spending gains will diminish. The operating and capital account budgets of the state and local sector have moved into deficit, and are likely to remain there until later this year when the many actions already taken to raise revenues and cut spending show through fully.

In the federal sector, real purchases are projected to decline, led by a downswing in defense procurement in lagged response to earlier decreases in appropriations. Nondefense spending, excluding CCC inventory acquisitions, is likely to rise further in the near term, paced by higher outlays for NASA and for IRS and Justice Department enforcement programs.

The bottom panel illustrates that the expected patterns of governmental activity are projected to hold down borrowing by those two sectors. It is the drop-off in their debt issuance that accounts for the rough stability of the ratio for aggregate net funds raised to GNP in 1988 and 1989.

The next two charts shift the focus from the demand side to the supply side, to address the question I raised earlier regarding the growth potential of the economy. The upper left panel of chart 9, labeled "Okun's Law," is a scatter plot of the changes in the unemployment rate and GNP in each year of this decade. As you can see, the points define fairly neatly a line that crosses the no-change line for the jobless rate at a 2.4 percent GNP growth rate. Okun's formulation says that this pivotal rate should match the growth of potential GNP, and in our assessment it does. We reach the same figure by adding up contributions to long-run growth from productivity and labor force trends.

At the right, you can see that, even with very strong gains in manufacturing efficiency, the measured increases in labor productivity for the nonfarm business sector as a whole have run a little over 1 percent per year since the initial cyclical rebound. We have assumed that the trend remains in that area. Meanwhile, as indicated at the lower left, a gradual slowing in the growth of the working age population, coupled with an extension of the uptrend in the participation rate, leads us to expect slightly smaller increases in the labor force over the next two years. Putting all this together, we conclude that the unemployment rate consistent with our GNP forecast is one that edges up in the short run but that ends 1989 where it was in January: 5-3/4 percent.

We have spent more than a little time puzzling over the implications of this level of unemployment for the inflation outlook. Compensation increases last year were smaller than we expected. The extent of the surprise varies from series to series. The conventional compensation series graphed in the top panel of chart 10 seems especially low, with a 2.8 percent increase in 1987, as compared with a 3.3 percent rise in the most comparable BLS Employment Cost Index. Indeed, an analysis of other data suggests to us that the compensation increase likely will be revised upward to around the ECI figure.

Even so, the rise in compensation over the past year looks a bit smaller than past relations would suggest, given the 6-1/4 percent average unemployment rate in 1987 and the marked acceleration in consumer prices. Our forecast of compensation in effect carries this shortfall in wage inflation on through 1988 and 1989.

Our interpretation of recent events is that wage increases have been damped by the unusual efforts on the part of businesses to contain costs and enhance competitiveness and by the desire of workers to achieve greater job security. These factors should remain important for a while longer, but especially so in the near term when diminished employment growth and lingering uncertainties about the consequences of the stock market decline are likely to translate into wage restraint. Our forecast of acceleration in compensation over the next two years implies only a partial pass-through of consumer price increases into nominal wages; real wages, as indicated at the right, continue to be eroded, mirroring the loss in purchasing power associated with the deterioration in U.S. terms of trade.

Of course, a certain circularity is inevitable in any discussion of wages and prices. They are, indeed, interdependent. A couple of considerations that lead us to the wage-price pattern we have forecast are suggested by the lower panels. First, nominal wage demands are conditioned by price expectations, and, after some decline immediately following the stock market crash, one-year inflation expectations have moved back into the 4-1/2 percent area, according to both the Michigan SRC and Hoey surveys.

The right-hand panel illustrates our projection for capacity utilization. We don't view this overall level as alarming, but it is expected that markets for many goods will be fairly taut and that this will be a factor causing rising import prices to feed through increasingly to domestic output prices.

At bottom, it is the impulse from the depreciation of the dollar that causes the U.S. inflation rate to inch up in our forecast--which provides a convenient lead into Ted Truman's remarks.

E. M. TRUMAN
February 9, 1988

FOMC Chart Show -- International Developments

As Mike has emphasized, the external sector provides a major impetus to both output and prices in the staff's forecast.

The first international chart, after the divider, addresses the output aspect and provides an overview of our projection for U.S. external balances. The red line in the top panel shows that the deficit in real GNP net exports of goods and services began to narrow in the fourth quarter of 1986, and during 1987 contributed about 1/2 percent to real GNP. As the chart suggests, the external sector is expected to make an even larger contribution, absolutely and relatively, over the forecast period as resources are shifted from servicing domestic demand to the external sector. Meanwhile, the current account deficit -- the black line -- is also projected to begin to narrow.

The table below the chart summarizes the outlook for the major components of real net exports of goods and services. The growth of goods exports accelerated last year to a 20 percent rate and is expected to continue at close to that rate over the forecast period. The pick up in services exports last year was in part the consequence of the lower dollar, which boosted direct investment earnings, and of higher dollar interest rates, which boosted earnings on dollar-denominated claims. The projected slowdown this year reflects a decline in dollar interest rates. In 1989, higher interest rates boost receipts.

On the import side, we expect the growth of goods imports to slow further in 1988 under the influence of the lower dollar and slower growth in aggregate demand in the United States. Both of these factors have reduced influence in 1989. Services imports were boosted last year by higher dollar interest rates on an increased level of foreign claims on the United States, by a sharp acceleration of payments on foreign direct investment in the United States, and by a recovery of travel to Europe following the terrorist scares of 1986. This year the weaker dollar should slow the growth of travel as well as of transportation expenditures, and with the less robust growth of the U.S. economy, direct investment income payments are expected to moderate. In 1989, however, higher dollar interest rates should interact with our growing stock of external liabilities to boost service payments substantially.

One of the key elements in the staff's overall outlook is the effect on prices, as well as on the structure of demand, of the sizable depreciation of the dollar that has occurred over the past three years and, to a lesser extent, the slower depreciation that is projected to occur over the forecast period. The upper panel of Chart 12 shows the weighted-average foreign exchange value of the dollar in terms of other G-10 countries' currencies in nominal terms -- the red line -- as well as in price-adjusted terms -- the black line. Both have essentially returned to their levels in the fourth quarter of 1980. Of course, against the currencies of our major trading partners among the developing countries the dollar in price-adjusted, or real, terms is still above its 1980 level. As Mike Prell stated at the start of our presentation, we are projecting a more moderate decline in the dollar over the forecast horizon than has occurred over the past few years. Specifically, in terms of the G-10 currencies, the dollar is projected to decline at an annual rate of 8 to 9 percent in nominal terms, and at about 6-1/2 percent in real terms, from its average level in January. Against the currencies of the developing countries, we expect a real depreciation on average at somewhat less than half the rate for the G-10 countries.

As can be seen in the lower panel, U.S real long-term interest rates -- the red line -- are estimated to have moved up on balance over the past year, both absolutely and relative to foreign rates. However, since the October crash, U.S. rates have declined somewhat more in real terms than have foreign rates on average. As a result, the differential, while remaining positive in nominal terms, is again negative in real terms, as can be seen in the chart. This relationship is expected to continue during the forecast period and will be one of the factors, along with the continuing large U.S. current account deficit, weighing on the dollar.

The interaction of interest rates and exchange rates has been a hot topic over the past year. Causal relationships are under some dispute, though most analysts would settle for a veredict of joint determination. The next chart provides a perspective on recent trends in interest rates in the United States, Japan, and Germany.

Comparing U.S. rates in the top panel with Japanese and German rates in the lower two panels, U.S. rates on balance are higher than a year ago, while rates in the other two countries are unchanged or somewhat lower. One also can see a generally similar pattern of easier conditions in all 3 countries since October. However, the call money rate in Japan is an exception to this generalization. In the context of rapid money growth and a robust expansion of the domestic economy, the Bank of Japan limited itself in late 1987 to offering some resistance to upward pressures on short-term interest rates. So far this year, it has encouraged a modest decline in the call money rate. In Germany, in contrast, the strength of economic activity is more questionable, and in recent months the Bundesbank has brought about lower short-term interest rates and adopted a new target for monetary growth this year that implies monetary expansion at essentially the same rate as last year, which was above the target for that period.

Our outlook for interest rates in these two key countries is that short-term interest rates may ease a bit further in Japan if the expansion slows or exchange market pressures intensify, but in Germany we believe that short-term rates are essentially at their lows. In both countries, we expect a moderate rise in short-term rates later this year and in 1989. With respect to long-term interest rates, there may be some scope for a further decline in both countries over the next several months as U.S. rates remain low, but they are expected to move back toward end-1987 levels later on in the period.

Chart 14 summarizes recent trends and our outlook for economic activity -- real GNP and domestic demand -- in the major industrial countries. The top two panels illustrate the contrast between the higher growth performance on average in Canada, Japan, and the United Kingdom -- the top panel -- and the lower growth in the three continental European countries -- the middle panel. This contrast was particularly marked in 1987. Growth of both real GNP and total domestic demand in the continental European countries was less than in the United States -- shown in the lower panel -- while the reverse was the case for the other group of countries. We are projecting that this pattern of relatively slow growth in continental Europe will continue over the forecast period.

As is shown by the red bars in the top panel of the next chart, the expansion of economic activity in the rest of the world as a whole is expected to slow somewhat in 1988 — by about 3/4 of a percentage point when weighted by shares in U.S. nonagricultural exports. However, the deceleration is expected to be less than that projected for the United States. Indeed, growth in the rest of the world should be faster than in the United States in 1988 and about the same in 1989. This should assist the overall process of global macroeconomic adjustment. Nevertheless, with growth over the two years averaging little more than 2-1/2 percent and unemployment still high in most other industrial countries, this outlook can hardly be described as rosy, especially for the developing countries.

Meanwhile, as can be seen in the lower panel, inflation, as measured by consumer prices, is projected to edge up slightly in the major foreign industrial countries in 1988 and 1989, as the restraining influence of currency appreciation is reduced. However, inflation in these countries will be considerably less than in the United States because of greater slack in their economies. This inflation differential is another factor likely to exert downward pressure on the dollar in exchange markets.

Turning to Chart 16 and to a more detailed examination of the components of the U.S. trade balance, the upper left-hand panel presents data on the growth in the volume of various categories of nonagricultural exports over the past two years. Most categories recorded faster growth in 1987, with exports of capital goods (line 2) especially strong — paced by very rapid increases for business machines, which now make up more that one fifth of U.S. nonagricultural exports in volume terms. In

1987, U.S. exports of nonagricultural products increased substantially to all destinations and, in particular, to developing countries in Latin America and Asia.

As indicated in the panel to the right, we expect the rapid expansion in the overall volume of nonagricultural exports to continue at around the recent 20-percent annual rate over the forecast period. In value terms, these exports are expected to be almost 50 percent higher in the fourth quarter of 1989 than they were last quarter.

The lower left-hand panel illustrates the significant recovery in the value and volume of U.S. agricultural exports in 1987. Exports of soybeans surged in the third quarter because of shortfalls in supplies from Brazil and Argentina. Exports in the first half of this year are projected to be buoyed by shipments of wheat and feedgrains to the Soviet Union and China that have already been contracted for. The outlook for agricultural exports over the remainder of the forecast period is more problematic, of course, but we expect a moderate upward trend as these exports benefit to some extent from our improved competitive position.

Oil imports, shown in the right-hand panel, are a continuing source of volatility. The value and volume of such imports dropped off in the fourth quarter of last year as the earlier build-up in inventories began to be worked down, and prices eased under the influence of high rates of OPEC production. This process of adjustment is continuing in the current quarter. In the second quarter and second half of this year, we expect that the average price of our oil imports will recover to about \$17.50 per barrel — about the average price in the middle of last year. This assumes that Saudi Arabia, Kuwait and the United Arab Emirates continue to restrain their own production. Such a posture for the balance of 1988 could lay the foundation for an increase in oil prices in 1989, and we have built into our forecast an increase of $2 per barrel, with most of it coming early in that year.

Turning to non-oil imports, the upper left-hand panel of the next chart presents data on increases in the prices of various categories of such imports over the past two years. On average, the prices of these goods have continued to increase more rapidly than the general price level, though special factors have affected prices in certain categories such as food, in particular, coffee, and automotive products, where prices were held back last year by slowing demand and the timing of incentive programs. The increase in the total fixed-weighted index has been slowed by the downtrend in the estimated prices of imported business machines. In this area, the same quality adjusted prices are used for imports, exports and domestic production.

Meanwhile, as is shown in the upper right-hand panel, growth in the volume of non-oil imports has slowed somewhat. However, the pattern has been uneven. The total has been boosted by the continued rapid expansion of imports of capital goods, especially business machines, which accounted for about 15 percent of the total volume of non-oil imports in the fourth quarter of last year.

The lower left-hand panel illustrates our outlook for the price of non-oil imports as measured by GNP deflators. Because of the rising share in total imports of business machines and their declining prices, the total deflator — the black line — is now projected to rise at only a 6 percent annual rate over the forecast period, while the deflator excluding business machines — the red line — rises at almost a 10 percent annual rate.

The volume of non-oil imports, shown by the red line in the right-hand panel, is expected to rise at a moderate rate over the four quarters of this year and to pick up a bit next year, as the U.S. economy expands more rapidly and as the effects of the dollar's depreciation are reduced. With the prices of these imports rising as well, the increase in their value — the black line — is projected at about 10 percent in both years.

The top panel of Chart 18 provides a summary of our projection of the trade and current account balances for the United States. As you can see from the black line, the trade deficit leveled off in 1987; excluding oil, the deficit actually narrowed by about $10 billion over the four quarters of the year. However, rising net service payments continued to push the current account balance further into deficit. Over the forecast period, both balances are expected to move in tandem, gradually improving by about $35 billion over the period. By the end of 1989, the deficit is expected to be still large at about $130 billion at an annual rate.

As usual, one can wonder — I would like to say speculate — about the capital flows that are the necessary counterpart of these current account deficits. As the table in the lower panel shows, capital inflows through foreign private net purchases of stocks and bonds — line 3 — are estimated to have declined sharply in 1987. The lower net inflows were primarily in the form of reduced purchases of U.S. corporate bonds and actual sales of U.S. Treasury securities. While the statistical discrepancy — line 6 — was essentially unchanged in 1987, the net inflow directly through official transactions — line 7 — increased substantially. However, this increase in official inflows was not commensurate with the increase, shown in line 9, in U.S. and other G-10 countries' intervention purchases of dollars. Moreover, it did not come close to estimated total net official accumulation of dollar assets shown in line 10. This line includes, in addition to G-10 intervention, intervention purchases by non-G-10 European countries, dollar accumulations by Taiwan, and an estimate of interest earnings on outstanding official holdings of dollar claims. Most of this additional official accumulation of dollar-denominated assets ended up in the Euro-currency market and, in turn, reached the United States through various private channels, including net borrowing by U.S. banking offices — line 2 — which increased sharply in 1987.

This year we are assuming that the direct official net capital inflow will be about the same as last year, but that the indirect inflows will be smaller. This view is consistent with our projection that the dollar will be under less downward pressure.

Our last chart presents a summary of the staff forecast for the U.S. economy in 1988 and 1989 in the top panel and two alternative scenarios in the lower panels. The staff forecast assumes that the dollar will be under moderate downward pressure over the next two years and that the effects of that decline on the U.S. economy will be tempered by a modest rise in interest rates. The alternative scenarios were developed with the help of the staff's econometric models plus a certain amount of judgment. (The entries in panels B and C are in the form of deviations from the staff forecast.)

The first alternative incorporates the assumption that the dollar will be essentially unchanged over the forecast period, without any change in policies to bring this about. Specifically, as is shown in line 6 of panel B, it is assumed that growth of M2 would be the same as the rate incorporated into the staff forecast in panel A. Interest rates -- line 7 -- are somewhat lower, but that reflects the lower economic growth -- line 1 -- especially in 1989, and lower inflation -- line 3. In such circumstances, it might be reasonable to assume that the actual path of money growth would be somewhat higher, leading to even lower interest rates and less of a shortfall in output.

Note that in this scenario the effects in 1989 are small. The direction of the effects also can be reversed to provide a rough indication of the implications of a smooth depreciation of the dollar at twice the rate assumed in the staff forecast.

The second alternative, shown in panel C, incorporates the additional assumption that an unchanged foreign exchange value of the dollar would be accomplished through a tighter U.S. monetary policy. Somewhat arbitrarily, we assumed that the federal funds rate would increase by 300 basis points over the next four quarters relative to the rates already embedded in the staff forecast and that this would be associated with an increase in long-term interest rates of 200 basis points over 6 quarters. Again, line 6 of panel C presents the estimated reduction in the growth rate of M2. In this scenario, of course, the effects on the U.S. economy of the stronger dollar are reinforced by higher interest rates. In 1988, the staff's forecast for the growth of real GNP would be cut by more than half -- line 1. In 1989, the effects are strong enough to push the economy into recession. However, the improvement in the current account balance -- line 4 -- is limited because a large part of the improvement in the trade balance is offset by increased net payments on the services account reflecting higher dollar interest rates. This is a fact of life for a country that is a net debtor and whose liabilities are denominated in its own currency.

Mr. Chairman, that concludes our presentation.